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Does Good Governance Create Value for International Acquirers in Africa: evidence from US acquisitions

Thouraya Triki and Olfa Maalaoui Chun[1]

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[1] Thouraya Triki and Olfa Maalaoui Chun are respectively Principal Research Economist, Development Research Department, African Development Bank (t.triki@afdb.org) and Assistant Professor, KAIST Graduate School of Finance, omaalaoui@business.kaist.ac.kr. The authors are very grateful to Ines Mahjoub and Riadh ben Massoud for excellent research assistance, and Molly Mahar and two anonymous referees for comments provided on an earlier version of the paper. The authors also benefited from comments made by participants to the 15th African Econometric Society annual conference held in Cairo, Egypt and AfDB informal research seminar.

Abstract

Using a sample of US acquisitions in Africa over the last 2 decades, we assess the long term performance of international acquisitions in Africa, and the impact of firm and country level governance characteristics on reported performance. We show that acquirers do not benefit from these transactions. We also find that acquisitions made in countries characterized by strong and impartial legal systems lead to higher returns, while those observed in unstable economies generate lower returns. Interestingly, the level of corruption does not affect reported performance. Previous experience in Africa and the acquirer's board size seem to be significant determinants of reported performance as well. Our results contrasts with the view that a strong legal framework reduces acquirers' ability to make large returns by turning around poorly governed firms.

Keywords: Governance, Mergers, Africa, Acquisitions, Financial performance.
JEL codes: G30, G34, G38

1. Introduction

Mergers and acquisitions (M&A) remain a highly popular form of corporate reorganization and growth, globally and in Africa. Over the last two decades, there has been a dramatic rise in the number of acquisitions of African businesses by foreign companies. For instance, during the period 2003-2008, the number of completed M&A transactions targeting African firms and involving non-African acquirers more than doubled while the value of those transactions increased seven fold (Figure 1). According to Thomson One[2], the most active non regional acquirers in Africa over the period 1982-2010 were the United Kingdom, the United States and Canada, both in terms of transaction value and number of deals.

M&A transactions are commonly expected to increase firm value through geographical diversification, synergies, economies of scale, or diversification of cash flow streams. Yet, M&A may also destroy value if they are motivated by managerial empire building attitude, commonly referred to, as managerial hubris (Roll, 1986). Economic theory suggests that effective governance mechanisms at the firm level might help curb managerial opportunistic behavior, reducing the likelihood that firms undertake unprofitable acquisitions. Moreover, evidence suggests that acquirers are more likely to report successful M&A transactions when targeted countries maintain a legal framework that promotes institutional stability, fairness and accountability. The legal environment encompasses investor protection, transparency and overall quality of accounting standards. Rossi and Volpin (2004), and Moeller and Schlingemann (2005) show that these factors are significant determinants of M&A. This view contrasts with the argument that a strong legal framework reduces M&A opportunities where acquirers could make large returns by turning around poorly governed firms.

The M&A literature remains heavily focused on US markets and to a lesser extent on UK markets. Very few studies looked at the profitability of M&A in Africa which is largely a function of the limited availability of reliable data on those transactions. Collectively, research on the M&A market in Africa has sought to explain the determinants of FDIs flows (Kamaly, 2007) or to study the short term market reaction to M&A announcements in South Africa, with the notable exception of Smit and Ward (2007) and Wimberely and Negash (2004) who explored the long term stock and operating performance of south African deals, respectively.

This paper addresses this gap in the literature by studying the long term stock performance of M&A targeting African firms and the determinants of the observed returns. To the best of our knowledge, we provide the first study of the effect of internal governance (at the firm level) and external governance (at the country level) characteristics on the performance of acquirers who targeted African firms. To do so, we focus on US acquisitions in Africa for two main reasons: a) US acquirers are the second most active in Africa both in terms of transactions number and value, and b) Detailed data on the governance and ownership structure of US publicly traded companies is available in the proxy statements published annually by those companies. This makes the study of the governance structure at acquirers' level possible.

Overall, the paper answers the following questions: (1) What are the important trends in the M&A market between the US and Africa? (2) Are shareholders of US acquirers benefiting from

[2] Formerly SDC platinum.

their acquisitions in Africa in the long run, and what affects reported returns? (3) What governance reforms are needed in order to enhance Africa's attractiveness for international investors? Studying the effect of governance on the performance of international acquisitions in Africa is of particular interest for regulatory purposes. Indeed, empirical evidence that links weak governance to higher returns for acquirers will support the argument that international acquirers are able to extract high returns thanks to the weak governance that some African countries suffer from. This will highlight the need to offer more protection to local businesses while not hindering FDI. Conversely, a positive relation between governance and returns will illustrate the need to strengthen foreign investors' protection in order to attract more FDI. Despite several reforms aimed at promoting sound corporate governance on the continent such as the "King report on Corporate Governance in South Africa", Africa still has a reputation of maintaining poor economic and political governance structures. This may have undermined its attractiveness as a destination for direct acquisitions. High levels of corruption reported in several African countries exacerbate this reputation problem.

Our results suggest that US acquirers do not benefit from their African acquisitions and report negative returns following these transactions. This finding supports the accepted idea in the literature that M&A are not value creating for acquirers, and shows that Africa is not an exception. The empirical findings drawn from the multivariate analysis suggest that acquisitions of South African targets or in countries with strong and impartial legal systems lead to higher performance while those observed in countries with high economic instability generate lower returns. Surprisingly, the level of corruption does not affect observed returns. Additionally, acquirers with previous experience in Africa and those with small board size are more likely to outperform. These results suggest that African countries should target enhanced macroeconomic stability and strengthen foreign investor's protection in order to attract more FDI. While our results should be interpreted with caution given the small size of our sample, we believe they still provide new insights about the level and determinants of M&A performance in Africa.

The remainder of the text is structured as follows. Section 2 reviews the literature on the performance of M&A globally and in Africa. Section 3 describes our dataset while Section 4 provides stylized facts about the market for M&A between the US and Africa. Section 5 and 6 report our results describing the performance of US acquisitions and the determinants of observed returns, respectively. Section 7 summarizes our robustness checks while section 8 concludes the paper.

2. Related literature

The literature on M&A has been piling up over the last two decades and yielded useful insights about the profitability of these transactions, and how their returns are distributed between the acquiring and targeted companies. Overall, three approaches are used in the literature to assess whether M&A create value for shareholders of acquiring and targeted firms namely i) abnormal returns drawn from event studies over the period surrounding the announcement of the transaction, ii) change in profitability measured by comparing pre and post acquisitions values of accounting ratios (e.g. the return on equity, growth rate or return on assets) and iii) Long-run stock returns following the transaction measured by the cumulative average abnormal returns (CAAR), the buy and hold returns or the calendar time approach. Collectively the empirical evidence suggests that target shareholders unambiguously earn positive returns from such

transactions, while there is no consensus about the value enhancing effect of M&A for shareholders of acquiring firms. This paper fits within the third approach. The remainder of this section discusses the main empirical findings in relation with our research focus.

Despite M&A popularity, the question of long term post acquisition profitability to acquiring firms remains an important, but largely unresolved empirical issue. Using data from the US market, Rau and Vermaelen (1998) report significant CAAR ranging between -4% for mergers, to 9% for tender offers over the 3 years following M&A announcement, while Loughran and Vijh (1997) empirical findings suggest that bidders experience buy and hold returns ranging from -14.2% for mergers, to 61.3% for tender offers over the 5 years following the acquisition. Returns following mergers are statically significant but only marginally significant following tender offers. Gregory (1997) finds similar results for the UK market with significant CAAR ranging between -18% and 11.82% over the 2 years following the acquisitions. However, his sample does not separate mergers from tender offers. Agrawal and Jaffee (2000) conclude that, at best, shareholders of acquiring firms are not worse off in tender offers but often experience negative returns in mergers. Yet, these returns are not necessarily statistically different from zero. Furthermore, acquirers that pay cash seem to experience higher returns than those who pay with stocks.

The research on the profitability of African acquisitions mainly focuses on the short term market reaction to M&A announcements. The evidence reported for the South African market supports the general conclusion that targets earn positive returns while acquirers earn negative or statistically non-significant positive returns over the period surrounding the announcement (Mushidzhi and Ward, 2004; Smit and Ward, 2007). To the best of our knowledge, Wimberley and Negash (2004) provide the only study that looks at the long term stock performance of M&A undertaken by South African industrial companies. The study covers the period 1989-1998 and shows a negative and significant CAAR of -10.5% over the 3 years following the acquisition, which is consistent with Agrawal et al. (1992) findings (-12.4%) and exceed the abnormal returns reported in Rau and Vermaelen (1998) for the US market (-4.9%). Interestingly, Wimberley and Negash (2004) report positive CAAR after the first year suggesting that the market might be overoptimistic at the announcement but later adjusts stock prices downwards. Using a sample of 27 South African M&A, over the period 2000-2002, Smit and Ward (2007) report positive but not statistically significant abnormal cash flow returns on assets, over the 2 years following the transactions. No difference in performance was observed between cash-funded and share-funded transactions. On the medium term, De Jaeger (2008) report statistically negative returns for a sample of 12 acquiring companies involved in cross-border M&A into sub-Saharan Africa. The negative performance reported in De Jaeger (2008) could also be driven by the higher cost of cross-border transactions. According to Rossi and Volpin (2004), acquiring firms pay on average an additional 3% in premium for cross-border transactions.

Based on the above review, we develop the following hypotheses:

Hypothesis 1: shareholders of US companies involved in acquisitions of African targets are expected, at best, not lose money from these transactions.

Hypothesis 2: shareholders of US companies involved in cash-funded acquisitions of African companies should benefit from higher returns.

3. Data

The initial dataset includes all M&A involving African targets between January 1970 and March 2010 available from Thomson One.[3] This leads to a total of 9,643 observations, out which 457 deals correspond to transactions where the acquirer is a US company. We subsequently applied the following filters: transactions must be "completed", and acquiring firms must be a non-financial institution. Given the unique nature of financial institutions, we decided to focus only on transactions related to the real sector that are not focusing on value creation through financial engineering. This led to a sub-sample of 255 transactions completed by US non-financial firms. In order to spot potential errors in Thomson One, we hand-checked the information reported for each transaction by screening the acquirers' annual and quarterly reports as well as news releases published around the date of the acquisition. This screening resulted in the elimination of 15 additional observations. Our usable sample comprises 240 M&A transactions, out of which 131 involve South African targets.

In order to study the determinants of acquirers' performance we collected stock prices adjusted for dividends and splits from Datastream for publicly traded US acquirers. Information about the deal characteristics and acquirers' book to market ratio were collected from Thomson One. Governance and capital structure variables for acquiring companies were hand collected from proxy statements and annual reports. Measures of the target institutional environment are from Political Risk Services' International Country Risk Guide (ICRG). We use returns on the size, industry and book to market portfolios available on the website of Kenneth French to implement our calendar time approach. Given the large number of missing observations for certain variables provided by Thomson One, we checked manually annual and quarterly reports, newswires, specialized magazines and newspapers articles, for information describing the deal, the acquirer and the target to increase our sample size. Our final sample includes 64 transactions conducted in Algeria, Angola, Cameroon, Egypt, Gabon, Ghana, Guinea, Kenya, Morocco, Nigeria, and South Africa; out of which 36 correspond to South African targets.

4. Stylized facts about US acquisitions in Africa

This section discusses stylized facts drawn from the 240 transactions completed by US acquirers in Africa. Companies involved in African M&A are quite advanced in their life cycle. The average age for acquirers is 58 years compared to 23 years for targets. Over two third of acquirers are publicly traded. Very few transactions are triggered by privatizations (8%) or mergers initiatives (6%); and 35% of them involve companies that already had business relationships. Cash seems to be the common way of paying for African acquisitions, with only 14% of the transactions paid with stocks and 9% paid with a mix of instruments. 57% of observed M&A lead to sector diversification and 80% to change in control (average shares acquired is 75.47%).

Table 1 lists the five most attractive target countries for US firms while Figure 2 provides a distribution of targeted sectors. Not surprisingly, South Africa is the most attractive country for US companies, followed by North Africa (Egypt, Morocco and Tunisia). These countries have stable economies, advanced financial systems and business environments that are friendly for

[3] Even though the data request starts in 1970, the first transaction in the sample starts in March 1982

foreign investors. All deals observed in Angola are related to the oil sector while those in Zimbabwe were observed for the consumer goods sector. This illustrates the heterogeneity of the transactions included in our sample. Interestingly the manufacturing sector attracted the highest number of acquisitions (38%) followed by mining (25%) and services (17%). To a certain extent, this finding contrasts with the traditional belief that foreign companies are mainly interested in taking control of African resources.

Figure 3 draws a time distribution of US acquisitions in Africa over the period 1982-2010. The graph shows a limited number of transactions over the period 1982-1989 mainly due to the Anti-Apartheid Act that was passed in 1986 and prohibited US firms from investing or doing business in South Africa. The lifting of US sanctions in July 1991 helped catalyze some acquisitions in Africa but the effect remained limited due to the criticism over the US administration's decision and tension following the indictment of the Armaments Corporation of South Africa (Armscor) by a US court. The number of US acquisitions peeked over the period 1996-2000 following the return of several US companies to South Africa and the reforms undertaken elsewhere on the continent to improve the business environment. As a matter of fact, 7% of South African targets in our sample used to be local subsidiaries of the US acquirers before the commercial sanctions. The number of acquisitions dropped twofold during the period 2007-2010, probably as a result of the financial crisis.

The deal value was available for 118 transactions and shows relatively small transaction sizes with average and medium values standing at USD 62 million and US 13.5 million, respectively. The largest deal realized by a US non-financial firm over our sample period was the acquisition of CMS' ownership interests in Equatorial Guinea by Marathon Oil for approximately USD 1 billion in 2002.

5. Long term performance of US acquisitions in Africa

We measure acquirers' long term performance by the buy and hold returns (BHR) on an unadjusted and adjusted base by subtracting from the corresponding BHR, the return on the S&P500 index. Table 2 summarizes the 1-year BHR and the 1 year- market adjusted BHAR for our sample of US publicly traded acquirers. Results suggest that US acquirers report on average positive returns of 16.3% one year after the transaction. This return outperforms the market, leading to an adjusted 1-year BHR of 11.6%. Findings in Panel B show that South African acquisitions generate higher gross returns for US acquirers but not always when adjusted for the market performance. Yet, the difference between both groups is statistically not significant. Results in Panel C are consistent with previous conclusions in the literature related to the superior performance of cash-funded transactions. Again, the difference is not statistically significant which does not support our second hypothesis H2. Our conclusions remain unchanged when we consider the 2-year buy and hold returns. In unreported results we also compare the financial returns registered by acquirers before and after the financial crisis. The mean 1-year BHR for transactions observed prior to the financial crisis is 20.73% while the same return for transactions observed post crisis is -25.9%. Interestingly, the t-test value shows that this difference is statistically significant at the 99% level.

(Table 2)

Results reported in Table 2 correspond to simple descriptive statistics which might not be robust and particularly sensitive to the selected market benchmark. In order to conduct a more robust assessment the performance of US acquisitions, we use a calendar–time approach based on the Fama-French three factor model as in Mitchell and Stafford (2000). For each calendar month of our sample period, we form a portfolio using the sample of all acquirers which undertook a M&A transaction over the last three years. Excess returns are then regressed on the Fama-French 3-factor model to control for size, market movement and book to market.[4]

$$R_{pt} - R_{ft} = \alpha + \beta_m(R_{mt} - Rft) + \beta_s SMB_t + \beta_h HML_t + \varepsilon_t, \qquad (1)$$

Where R_{pt} is the portfolio return of active acquirers in month t, R_{ft} is the risk-free interest rate, R_{mt} is the market return, SMBt and HMLt are the difference in returns between a portfolio of small companies (high book-to market), and large companies (low book-to-market), respectively. The intercept, α, captures abnormal returns that are experienced by acquirers.

Table 3 summarizes results computed with the three-factor model. They show a negative and significant intercept α, thus contradicting our conclusions from the univariate analysis. This result supports our first hypothesis H1 and is consistent with Wimberley and Negash (2004) conclusion for South African targets and De Jaeger (2008) for sub-Saharan African targets. It also supports the general idea that acquirers do not benefit from their acquisitions and show that Africa is not an exception.

(Table 3)

6. Determinants of the post-acquisition performance of US M&A in Africa

6.1 . Model

Despite the large body of literature that studied M&A profitability, key factors for success or failure remain poorly understood. This section provides potential explanations of the observed performance registered by US acquirers following their acquisitions in Africa. Our measure of acquirers' long term performance is the 1-year BHR.[5] The model controls for three set of arguments namely deal characteristics, acquirer's governance structure and target institutional environment.

6.1.1. Deal characteristics

Diversification effect: Berger and Ofek (1995) and Maquieira et al. (1998) show that diversification destroys value for the bidder while focusing transactions tend to produce positive returns. Doukas and Land (2003) find similar results in the case of FDI. This is probably due to the fact that focusing deals are more likely to produce synergies and savings to the bidder. We include a dummy variable (*Focus*) that equals one if the target and the bidder have identical 4-digit SIC codes, zero otherwise and expect this variable to have a positive coefficient.

[4] Our results remain unchanged when we include the momentum factor.
[5] We use the 1-year BHR in order to maximize our sample size.

Glamour deals: Rau and Vermaelen (1998) conclude that low book to market "glamour" bidders underperform value bidders (companies with high book-to-market firms) on the long run which is consistent with the hubris hypothesis. The market and management might be extrapolating the bidder's past performance (as reflected in the book-to-market ratio), causing investors and management to be overly optimistic about the outcome of the acquisition. Wimberley and Negash (2004) findings support this conclusion for the South African market. We control for this argument by including the book to market ratio (*BTM*) and expect this variable to have a positive coefficient.

Method of payment: According to the information asymmetry theory developed by Myers and Majluf (1984), using stocks to pay for acquisitions could signal that the stock of the acquiring firm is overvalued which leads the stock price to adjust downwards. Asquith et al. (1983), Dong et al. (2006), Sudarsanam and Mahate (2003) and more recently Kyriazis (2008) find that cash-based deals outperform stock based deals. Conversely, Wimberley and Negash (2004) findings for South African acquirers do not support this conclusion. We use a dummy variable equals to 1 if the transaction is paid cash (*Cash*) and expect this variable to have a positive coefficient[6].

Change in control: taking controlling stakes in the target firm allows the bidder to exercise greater control on operations. We include a dummy variable indicating whether the transaction leads to a change in control (*Control*) as a control variable and expect it to have a positive coefficient.

Culture fit: According to Stahl and Voight (2008), cultural differences can represent major obstacles to successful acquisitions. Their results suggest a significant negative relation between culture differences and long term performance of acquisitions. Acquirers who have previous business experience in Africa should be more comfortable in dealing with local business conditions. We control for the cultural fit between the target and the acquiring firm by including a dummy variable that equals to one if the acquirer has previous business experience in Africa (*Experience*). We expect this variable to have a positive coefficient.

South African targets: South Africa is one of the most advanced and dynamic economies on the continent and offers a friendly business environment for acquirers. This should foster successful acquisitions. The culture barrier between the US and South Africa is also less important than other regions of the continent, at least language wise. However, given the high competiveness in the South African market, there might be less room to buy attractive targets at cheap prices. We control for the South African effect by including a dummy equals to one if the target home country is South Africa (*South Africa*) and we do not offer any expectations on the sign of this variable.

6.1.2. Acquirer's governance structure

Strong governance at the acquirer level should reduce the probability of undertaking M&A that are not value creating. We use three variables to control for the governance structure of the

[6] Given that most of our transactions correspond to tender offers, we were not able to control for the type of acquisitions. Based on the evidence reported in the literature, tender offers are expected to lead to higher returns than mergers. The same argument applies for the acquisition of private targets.

acquiring company, namely the percentage of shares held by outside block holders (Block), the percentage of board members that are independent (IND board) and the size of the board of directors (BOD size). Outside block holders will bear a larger cost of unsuccessful acquisitions than small shareholders which provide them with the financial incentive to exercise better monitoring. They also have the capacity to exercise a stronger monitoring. Large boards are also expected to exercise more control over the firm's management as long as the size does not hinder communication between board members. Finally, Fama and Jensen (1983) emphasize the importance of outside directors in monitoring the firm's management. Outside directors are expected to exercise better monitoring because they do not depend on existing management and are interested in building a reputation in the market to receive more directorship nominations. Accordingly, the three variables are expected to have positive coefficients.

6.1.3. Target institutional environment

Rossi and Volpin (2004) findings suggest that acquirers involved in cross-border transactions often come from countries with stronger investor protection than targets, and conclude that cross border M&A could serve as channels to achieve worldwide convergence in governance standards. Alba et al. (2009) argue that acquisition of targets in countries characterized by weak governance environment offers attractive opportunities to achieve higher returns by strengthening the governance structure of the target. Their evidence suggests that improvements in corporate governance in the US reduced the attractiveness of US firms for Japanese FDI in the form of M&A. This result could also reflect the larger premium paid for targets in countries with strong shareholders protection reported in Rossi and Volpin (2004). Strong governance at the target country level could also be value enhancing for acquirers if it helps protect their rights. We control for the target institutional environment by using the following variables i) *Law and Order* which measures the strength, impartiality and respect of the law in the country (higher values imply a better legal system), ii) The *economic risk rating* (*ERR*) which measures the economic stability in the country. This rating uses information about the country's foreign debt as a % of GDP, current account as a % of imports and exports, exchange rate stability and country's liquidity as months of imports cover and iii) *Corruption* which measures the extent of financial corruption, excessive patronage, 'favor-for-favors', and suspicious ties between politics and business (higher values imply a more corrupted system). The ERR variable is expected to have a negative coefficient. Strong legal systems (weak corruption level) should help enforce agreements and make M&A more profitable. Conversely, a weak legal system (strong corruption) could lead to badly governed firms and offer US acquirers more attractive investment opportunities. Accordingly, we do not offer any expectations on the sign of Law and order and Corruption.

6.2 . Multivariate results

Table 4 and 5 report respectively descriptive statistics and results drawn from the multivariate analysis. Our findings show that deal characteristics, namely the diversification effect, the method of payment, the change in control and glamour transactions do not significantly affect the performance of acquirers. This conclusion does not support our second hypothesis H2. Conversely, US acquirers with previous experience in Africa report higher performance (the coefficients is positive and significant at the 95%). Acquisitions of South African targets also lead to higher performance. This result could be driven either by i) the higher culture fit between

South Africa and the US, or ii) the well-structured and dynamic business environment offered by South Africa. Board size has a negative and significant coefficient at the 90% level. This result is consistent with Yermack (1996) conclusion on the superior monitoring performed by smaller boards. In our case, large boards seem to be unable to prevent US acquirers from undertaking unsuccessful acquisitions in Africa.

(Table 4, 5)

Our control variables for the target legal environment and economic stability are both significant at the 90% and 99%, respectively. This result suggests that acquisitions in countries with unstable economic environments lead to lower performance for acquirers, while those observed in countries with a strong legal system generate a higher performance. Our findings show that acquisitions are more successful when the target country offers a legal environment that protects investors' rights which is consistent with Rossi and Volpin (2004). Surprisingly, the variable controlling for corruption does not affect the return reported by US acquirers contradicting the general belief that corruption might help foreign companies generate higher returns by use "unconventional" business practices.

7. Robustness checks

In order to test the robustness of our results we run additional tests to control for the following arguments:

Sustained M&A programs: Frequent acquirers are more likely to create value through acquisitions because they have the necessary experience to successfully integrate the target's activities into their existing businesses. Asquith et al. (1983) and Gregory (1997) report evidence showing a positive relation between stock price and the announcement of series of acquisitions while Wimberley and Negash (2004) show that South African firms engaging in multiple acquisitions generate larger negative returns. Hence, our results could be driven by subsequent acquisitions conducted by acquirers. We control for this argument by running two additional specifications: one including a dummy variable that equals one if the acquirer undertakes additional M&A transactions in Africa (FreqAfrica) during the year following the deal, and a second one including a dummy variable equals one if the acquirer undertakes additional M&A transactions anywhere in the world (FreqWorldwide) during the year following the deal. As long as acquisitions lead to learning effects, we expect these variables to have positive coefficients. Table 6 summarizes our results. Overall, the addition of these variables to the model does not affect our main findings. The dummy variables controlling for frequent acquisitions in Africa and Worldwide have non-significant coefficients which suggest that our results are not driven by this effect.

(Table 6)

Financial crisis effect: Univariate analysis reported in Table 2 suggested that the financial crisis might have a significant effect on the observed returns. In order to make sure that our results are not driven by the financial crisis, we performed a regression similar to the one reported in Table 5 that includes a dummy variable (*Crisis*) indicating whether the deal took place after the

subprime crisis that started in July 2007. Our results are reported in the last column of Table 6. The financial crisis variable has a negative coefficient but it is not significant while our results remain stable.

Industry and time effect: Inspection of our data shows that a large share of transactions included in our sample took place in the manufacturing and mining sectors. Thus, our results could be driven by industry effects. In order to address this issue, we rerun the same model than in Table 5 while including dummies to control for industry. Our results remain unchanged, with the exception of the board size variable which loses its significance. We also rerun the same model than in Table 5 while adding year dummies to make sure that our results are not driven by time effect. Again, the variables South Africa, Experience, BOD size, Law and order and ERR have significant coefficients with identical signs to Table 5 while corruption remains non-significant.[7]

8. Conclusion

The objective of this paper is to empirically examine the profitability of US acquisitions in Africa and the impact of firm level and country level governance characteristics on the long term performance of acquiring companies. Our results suggest that US acquirers do not benefit from their African acquisitions and report negative returns following the acquisitions, underperforming the market. Multivariate analysis suggests that deal characteristics namely diversification effect, change in control, method of payment and glamour deals do not affect the performance of US acquirers while acquisitions of South African targets seem to lead to higher returns. Our results also show the importance of the target institutional environment and cultural fit in shaping the success of a transaction. Acquisitions in countries with strong legal systems and/or low economic instability and those realized by acquirers with previous experience in Africa lead to higher performance. Similarly, smaller boards at the acquirer level are associated with higher returns. Interestingly, the level of corruption does not seem to affect observed returns which contrasts with the general belief that corruption in Africa allows foreign investors to extract higher returns. Our results are robust to control for time and industry effects, subsequent acquisitions, and the financial crisis effect.

Overall, our findings highlight the need for African countries to implement reforms aimed at fostering economic stability and strong foreign investors' protection. Yet, these conclusions should be interpreted with a pint of salt given the small size of our sample. Future research should seek to include other acquiring countries in the analysis.

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[7] For sake of brevity, these results are not reported in the paper but are available from the author upon request.

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Table 1

Completed M&A by US Non-Financial Acquirers in Africa: Top 5 Targeted Countries (1982- 2010)

Target nation	Number of deals
South Africa	131
Egypt	28
Gabon/ Zimbabwe/Angola	16
Morocco/Tunisia	15
Ghana	6

Table 2

Long Term Performance of US M&A in Africa -Univariate Analysis

This table reports the one-year Buy and Hold returns (BHR 1yr) and the market adjusted one-year buy and hold returns (BHAR 1yr), for the entire sample as well as for subsamples of South African and non South African targets, transactions paid cash and those paid with other methods. P-values for the test of difference are obtained with a *t*-test (for mean equality) and a Wilcoxon Rank-Sum test (for median equality). *, **, *** refer to statistical significance at the 90%, 95% and 99% level, respectively.

	BHR 1yr			BHAR 1yr		
Panel A- Acquirers' long run performance						
Mean	0.163			0.116		
Median	0.160			0.100		
N	96			96		
Panel B- Acquirers' long run performance by target origin						
	SA Target	**Other Targets**	**P-value for test of difference**	**SA Target**	**Other Targets**	**P-value for test of difference**
Mean	0.180	0.143	0.676	0.106	0.129	0.794
Median	0.175	0.160	0.612	0.120	0.055	0.814
N	52	44		52	44	
Panel C- Acquirers' long run performance by method of payment						
	Cash Payment	**Other payment methods**	**P-value for test of difference**	**Cash Payment**	**Other payment methods**	**P-value for test of difference**
Mean	0.166	-0.055	0.214	0.114	-0.055	0.218
Median	0.157	-0.077	0.149	0.033	0.022	0.277
N	61	13		61	13	

Table 3

Long Term Performance of US M&A in Africa –Calendar Time Approach

This table summarizes results drawn from the calendar time approach based on a three factor model estimated using ordinary least squares. The dependent variable is Rpt which is equal to the return on a portfolio of acquiring firms during month t, Rft is the risk-free interest rate, (Rmt- Rft) is the excess return of the market, SMBt and HMLt are the difference in returns between a portfolio of small (high book-to market), and big (low book-to-market) stocks, respectively. The intercept (α) captures the monthly abnormal return for acquiring firms. *, **, *** refer to statistical significance at the 90%, 95% and 99% level, respectively. P-values for coefficients are reported between parentheses.

β_m	-0.002
	(0.460)
β_s	0.013
	(0.001)**
β_h	0.004
	(0.263)
α	-0.381
	(0.000)***
R-Squared	0.0396
N	284
P-value	0.01***

Table 4

Descriptive Statistics

This table summarizes descriptive statistics of the variables used in the multivariate analysis. (*Focus*) is a dummy variable that equals one if the target and the bidder have identical 4-digit SIC codes, zero otherwise, (*BTM*) is the book to market ratio, (*Cash*) is a dummy variable equals to 1 if the transaction is paid cash, (*Control*) is a dummy variable indicating whether the transaction leads to a change in control, (*South Africa*) is a dummy equals to one if the target home country is South Africa, (*Experience*) is a dummy equals to one if the acquirer has previous experience in Africa, (*Block*) is the percentage of shares held by outside block holders, (*BOD size*) is the size of the board of directors, (*IND board*) is the share of independent directors sitting on the board, (*Law and Order*) measures the strength and impartiality of the legal system in the target country, (*ERR*) measures the economic stability in the country, and (*Corruption*) measures the level of corruption in the country.

Variable	**N**	**Mean**	**Median**	**Std. dev.**
Panel A- Deal Characteristics				
Focus	96	0.479	0.000	0.502
BTM	95	0.685	0.277	1.236
Cash	74	0.824	1.000	0.383
Control	96	0.708	1.000	0.456
South Africa	96	0.542	1.000	0.501
Experience	91	0.802	1.000	0.401
Panel B- Acquiers Governance Structure				
Block	93	0.060	0.000	0.162
BOD Size	93	10.419	11.000	3.780
IND board	93	0.728	0.8	0.228
Panel C- Target Institutional Environment				
Law and Order	93	3.108	3.000	1.005
ERR	93	36.860	38.000	4.717
Corruption	93	3.01	3	1.246

Table 5

Determinants of the Post-Acquisition Performance of US M&A in Africa

This table summarizes results drawn from multivariate analysis using ordinary least squares. The dependent variable is the 1-year BHR reported by the acquirer. Independent variables include (*Focus*) a dummy variable that equals one if the target and the bidder have identical 4-digit SIC codes, (*BTM*) the book to market ratio, (*Cash*) a dummy variable equals to 1 if the transaction is paid cash, (*Control*) a dummy variable indicating whether the transaction leads to a change in control, (*South Africa*) a dummy equals to one if the target home country is South Africa, (*Experience*) a dummy equals to one if the acquirer has previous experience in Africa, (*Block*) the percentage of shares held by outside block holders, (*BOD size*) the size of the board of directors, (*IND board*) the share of independent directors sitting on the board, (*Law and Order*) which measures the strength and impartiality of the legal system in the target country, (*ERR*) which measures the economic stability in the country, and (*Corruption*) a measure of the level of corruption in the country. *, **, *** refer to statistical significance at the 90%, 95% and 99% level, respectively. P-values for coefficients are reported between parentheses. All results are adjusted for heteroschedasticity.

Panel A- Deal Characteristics	
Constant	1.017
	(0.072)*
Focus	-0.003
	(0.974)
BTM	0.028
	(0.193)
Cash	0.115
	(0.347)
Control	-0.127
	(0.256)
South Africa	0.339
	(0.09)*
Experience	0.352
	(0.019)**
Panel B- Acquirer Governance Structure	
Block	-0.023
	(0.934)
BOD Size	-0.027
	(0.079)*
IND board	-0.144
	(0.423)
Panel C- Target Institutional Environment	
Law and Order	0.115
	(0.09)*
ERR	-0.035
	(0.006)***
Corruption	-0.017
	(0.787)
N	66
R-Squared	0.319
P-Value	0.0078***

Table 6

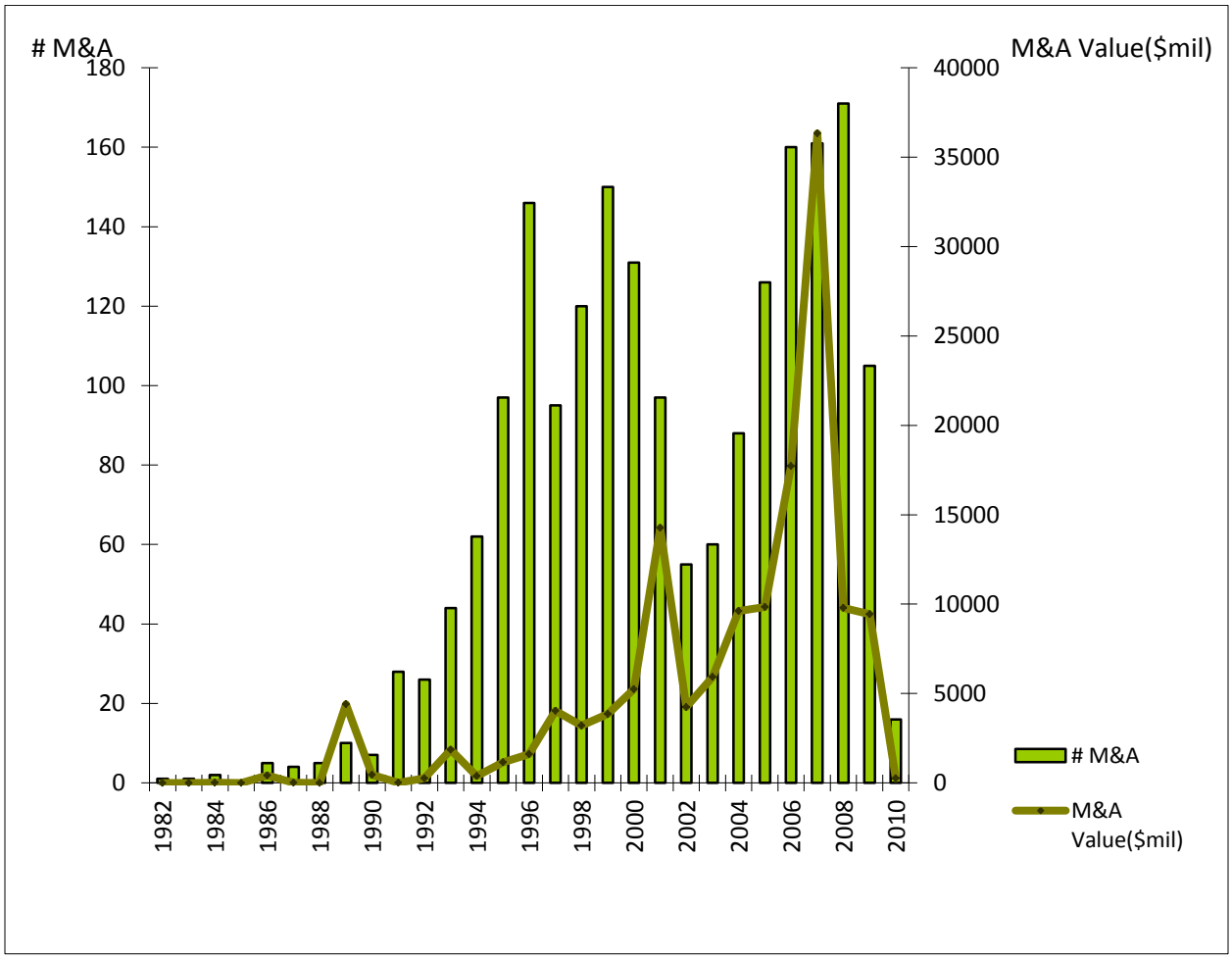
Robustness Checks

This table summarizes results drawn from our robustness checks for frequent acquisitions and the effect of the financial crisis using ordinary least squares. The dependent variable is the 1-year BHR reported by the acquirer. Independent variables include (*Focus*) a dummy variable that equals one if the target and the bidder have identical 4-digit SIC codes, zero otherwise, (*BTM*) the book to market ratio, (*Cash*) a dummy variable equals to 1 if the transaction is paid cash, (*Control*) a dummy variable indicating whether the transaction leads to a change in control, (*South Africa*) a dummy equals to one if the target home country is South Africa, (*Experience*) a dummy equals to one if the acquirer has previous experience in Africa, (*FreqAfrica*) a dummy equals one if the acquirer undertakes additional M&A in Africa during the year following the transaction, (*FreqWorldwide*) a dummy equals one if the acquirer undertakes additional M&A anywhere in the world during the year following the transaction, (*Crisis*) is a dummy equal one if the transaction took place after the financial crisis, (*Block*) the percentage of shares held by outside block holders, (*BOD size*) the size of the board of directors, (*IND board*) the share of independent directors sitting on the board, (*Law and Order*) which measures the strength and impartiality of the legal system in the target country, (*ERR*) which measures the economic stability in the country, and (*Corruption*) a measure of the level of corruption in the country. *, **, *** refer to statistical significance at the 90%, 95% and 99% level, respectively. P-values for coefficients are reported between parentheses. All results are adjusted for heteroschedasticity.

	Basic model	**(1)**	**(2)**	**(3)**
Panel A-Deal Characteristics				
Constant	1.017	1.072	1.24	0.965
	(0.072)*	(0.054)*	(0.03)**	(0.077)*
Focus	-0.003	-0.002	-0.0004	-0.001
	(0.974)	(0.977)	(0.996)	(0.994)
BTM Ratio	0.028	0.027	0.022	0.030
	(0.193)	(0.213)	(0.344)	(0.409)
Cash	0.115	0.126	0.136	0.120
	(0.347)	(0.298)	(0.277)	(0.407)
Control	-0.127	-0.133	-0.114	-0.129
	(0.256)	(0.224)	(0.294)	(0.197)
South Africa	0.339	0.362	0.328	0.332
	(0.09)*	(0.101)	(0.091)*	(0.046)**
Experience	0.352	0.348	0.342	0.342
	(0.019)**	(0.016)**	(0.016)**	(0.007)***
FreqWorldwide		-0.138		
		(0.334)		
FreqAfrica			-0.174	
			(0.165)	
Crisis				-0.074
				(0.711)
Panel B-Acquirer governance structure				
Block	-0.024	-0.089	-0.112	-0.012
	(0.943)	(0.796)	(0.736)	(0.967)
BOD Size	-0.027	-0.024	-0.024	-0.027
	(0.079)*	(0.099)*	(0.107)	(0.071)*
IND board	-0.144	-0.090	-0.151	-0.129
	(0.423)	(0.608)	(0.392)	(0.566)

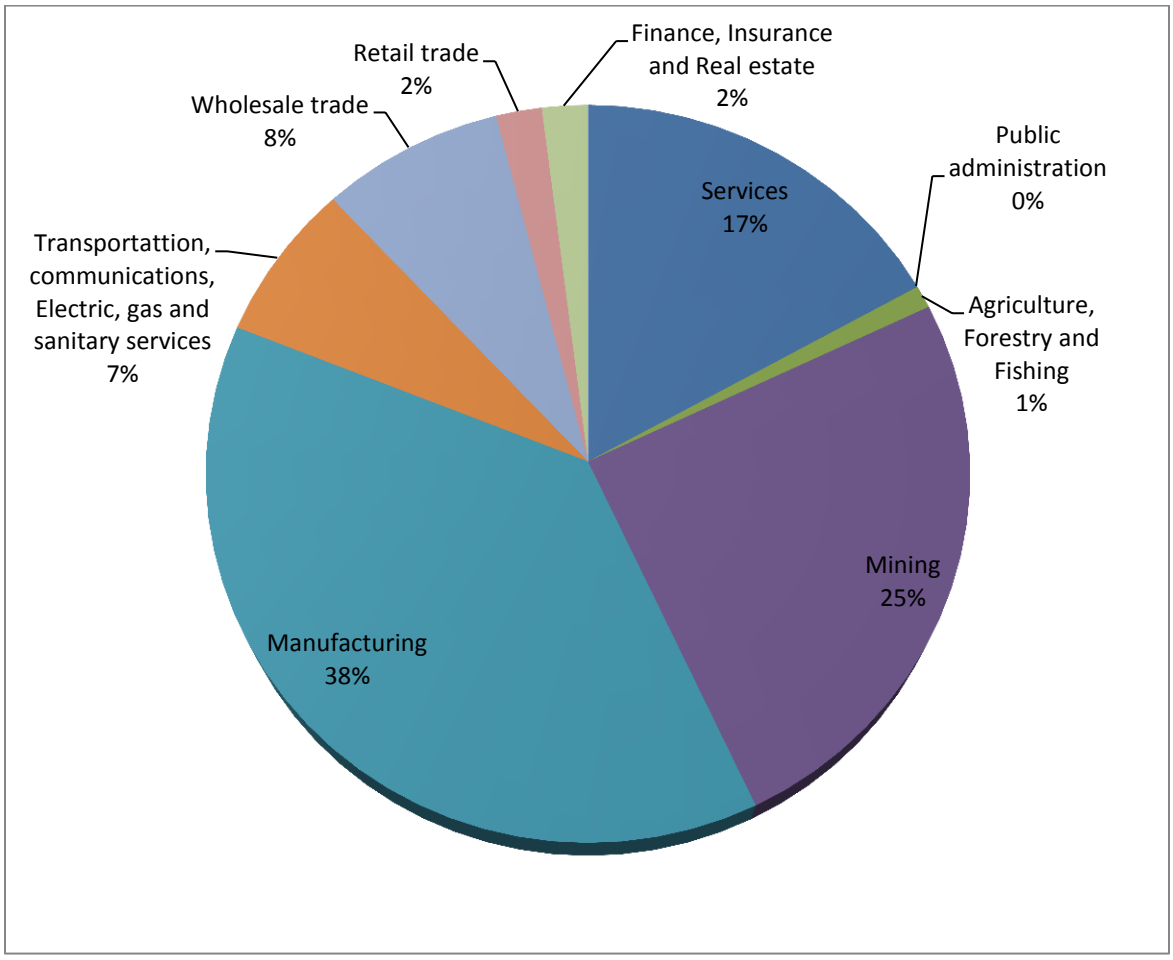
Panel C: Target institutional environment				
Law and Order	0.115	0.122	0.123	0.111
	(0.090)*	(0.089)*	(0.082)*	(0.09)*
ERR	-0.035	-0.035	-0.039	-0.033
	(0.006)***	(0.004)***	(0.004)***	(0.019)**
Corruption	0.017	-0.019	-0.03	-0.019
	(0.787)	(0.773)	(0.657)	(0.744)
N	66	66	66	66
R-Squared	0.319	0.337	0.346	0.321
P-Value	0.007***	0.004***	0.008***	0.053*

Fig.1. Distribution of Completed M&A made by non-African Acquirers in Africa (1982-2010)



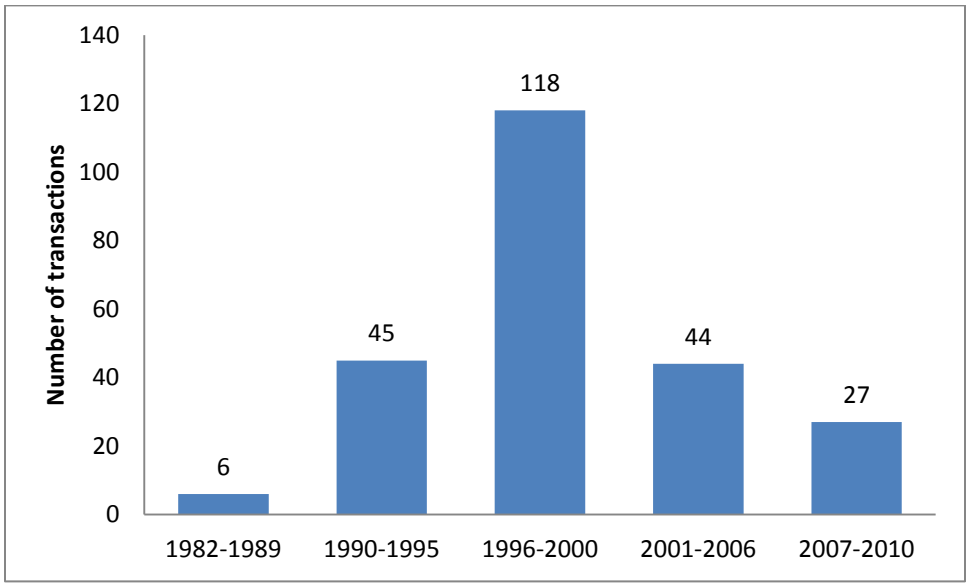
Source: Thomson One

Figure 2: Sector Distribution of Completed M&A made by US Non-Financial Institutions in Africa (1982- 2010)



Source: Thomson One

Figure 3: Time Distribution of Completed M&A made by US Non-Financial Institutions in Africa (1982- 2010)



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African Development Bank
Angle de l'avenue du Ghana et des rues Pierre
de Coubertin et Hédi Nouira
BP 323 –1002 Tunis Belvédère (Tunisia)
Tel.: +216 71 333 511 – Fax: +216 71 351 933
E-mail: afdb@afdb.org – Internet: www.afdb.org